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M E M O R A N D U M

TO: Agency Payroll Officers

FROM: OA/Division of Accounting

DATE: January 9, 2006

RE: Reporting State Vehicle Use

The purpose of this memorandum is to remind and update state agencies concerning IRS regulations that require employers to withhold certain payroll taxes and to include automobile commuting use values in employee gross W-2 income.

For 2006, the standard mileage deduction rate set by the IRS for business travel in an automobile has been revised to 44.5 cents per mile for all miles driven (the rate was 48.5 cents per mile in 2005). Also, the fair market value of a car eligible for cents-per-mile valuation must not exceed $15,000 for cars first made available to an employee in 2006. Those employees using the cents-per-mile method described in the attached Auto Fringe Benefit Calculation methods sheet must calculate the automobile commute value using the 44.5 cents per mile rate.

Following are some points, which should be remembered in determining the reportable commute value.

1. Certain “qualified nonpersonal use vehicles” have been exempted by the IRS from reporting and taxation requirements. They are:

   - Clearly marked police and fire vehicles
   - Unmarked law enforcement vehicles when used for authorized purposes by a full time law enforcement officer
   - Delivery trucks with seating for only the driver
   - Flatbed, dump, and garbage trucks
   - School and passenger busses with over a 20-person capacity
   - Ambulances
   - Specialized utility repair trucks (except vans and pickup trucks)

   NOTE: Pickup trucks and vans are generally taxable, unless specially modified with permanent shelving, storage racks, and painted insignia so that personal use is unlikely.

2. Federal regulations allow vehicle personal use values for November and December to be deferred to January of the following year.

3. Under provisions allowed by IRS regulations, the State has elected to not withhold federal income taxes from taxable commute values. If normal withholding will not be sufficient because of the addition of automobile commute values to taxable income, employees should complete new W-4 forms to increase normal withholding taxes. State income tax will also not be withheld on reported commute values. However social security, Medicare and local earnings taxes are withheld.

4. Commute values reported will be included in income reported on employee W-2 forms.

The instructions on how to report auto commuting use values are found in SAM II HR Policies and Procedures, Imputed Wages, Automobile Commute. Automobile commuting use values may be calculated by using one of the methods summarized on the attached Auto Fringe Benefit Calculation Methods sheet. If you have any questions, contact the Division of Accounting, Payroll Unit by calling (573) 751-3141.

JD:VD:vs/oper/jdreportingstatevehicleuse
Attachment

AUTO FRINGE BENEFIT CALCULATION METHODS

Federal regulations require all employers to withhold payroll taxes and include the value of automobile personal (commuting) use in taxable income. The following methods have been prescribed by the IRS to determine auto commute values.

Commute Value Method: This method values the commuting use at $1.50 per one-way commute ($3.00 per round trip) for each employee commuting in a state vehicle regardless of the number of miles driven. Control employees may not use the commute value method. Control employees are all elected officials and any employee whose compensation equals or exceeds that of a federal employee at Executive Level V ($133,900 in 2006).

Fair Market Value Method: The state agency (employer) would determine the cost to lease a comparable car. The value reportable would be the fair market value multiplied by the ratio of personal (commute) mileage to total mileage.

Cents-Per-Mile Method: This method allows the commuting use value to be determined at the rate of 44.5 cents per mile for 2006. The standard rate includes gasoline, insurance and maintenance. This method can be used if either the vehicle is regularly used for governmental purposes or is driven 10,000 miles or more annually and has a fair market value of $15,000 or less in 2006. If the employer does not provide fuel, the mileage rate may be reduced $.055 (five and one-half cents) per mile. Control employees may use the cents-per-mile valuation rule.

Table or Annual Lease Value Method: This method is based on a four-year lease term. Therefore, except in the case of a vehicle transfer from one employee to another, the annual lease value once calculated, must remain in effect for a period that begins with the first date that the annual lease value was first applied and ends on December 31 of the fourth full calendar year following that date. The annual lease term for any subsequent four-year period must be calculated in the same manner.

The calculation of the commuting use value using the annual lease value method requires five steps:

1. Determine the fair market value of the vehicle, exclusive of fleet discounts, as of the first day it was made available. Nationally recognized publications that regularly report new and used retail values should be consulted to determine vehicle fair market value.

2. Using the fair market value as of the first date vehicle was made available to the employee, determine the annual lease value from the IRS table reproduced below:

Automobile Fair Market Value	Annual Lease Value	Automobile Fair Market Value	Annual Lease Value
$ - 999	$ 600	$ 13,000 - 13,999	$ 3,850
1,000 - 1,999	850	14,000 - 14,999	4,100
2,000 - 2,999	1,100	15,000 - 15,999	4,350
3,000 - 3,999	1,350	16,000 - 16,999	4,600
4,000 - 4,999	1,600	17,000 - 17,999	4,850
5,000 - 5,999	1,850	18,000 - 18,999	5,100
6,000 - 6,999	2,100	19,000 - 19,999	5,350
7,000 - 7,999	2,350	20,000 - 20,999	5,600
8,000 - 8,999	2,600	21,000 - 21,999	5,850
9,000 - 9,999	2,850	22,000 - 22,999	6,100
10,000 - 10,999	3,100	23,000 - 23,999	6,350
11,000 - 11,999	3,350	24,000 - 24,999	6,600
12,000 - 12,999	3,600	25,000 - 25,999	6,850

3. Divide the number of commuting miles by total miles driven during the year to determine the commuting percentage. Multiply commuting percentage by the annual lease value.

4. Maintenance and insurance costs are included in the table of annual lease values, but the cost of fuel is not. If the State pays for fuel, this cost must be computed separately and added to the lease value to determine the taxable fringe amount. As an alternative, the employee can elect to value cost of fuel at 5.5 cents per each commute mile.

5. Calculate total annual lease value by adding the amounts determined in items 3 and 4 above.

Example: Employee A is provided a state vehicle with a fair market value (FMV) of $8,000 and a corresponding annual lease value (ALV) of $2,600. Employee A drove a total of 10,000 miles of which 1,000 miles was for commuting.

Calculation Example:

Vehicle Lease Valuation: =	1,000 / 10,000	(Commuting miles) / (Total miles)	x	$2,600 (ALV)	=	$260
Gasoline	1,000	(Commuting miles)	x	$.055/mile	=	55
Total ALV Reportable						$315

NOTE: If a vehicle is made available to an employee for periods of 30 or more days but less than an entire calendar year, the reportable annual lease value must be prorated on the basis of a 365 day year. Where a vehicle was made available for one or more periods of 30 days or less, the lease value per day must be calculated at four times the prorated daily lease value. This requirement recognizes cost of leasing a vehicle on a short-term basis which is greater per day than leasing on a long-term basis.

Prepared by: Office of Administration, Division of Accounting
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